



Sponsorship Valuation: Understanding the True Value of Sponsorship.



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- + **With such high levels of investment into sports sponsorship, and the inherent opportunities and risks involved, often a lot of money can be left on the table.**
- + **Sponsorship is no different from any other form of marketing expenditure - it requires clear and concise evaluation against its aims to justify its existence and ultimately its associated expenditure.**
- + **In terms of expressing the return on sponsorship investment, a financial audience will typically require an evaluation based on financial payback, or ROI? i.e. how has the investment affected both top and bottom-line performance of the organisation?**

In this whitepaper I discuss sports sponsorship, typical approaches to sponsorship valuation and why a financially oriented approach to sponsorship evaluation needs to be considered by Sponsorship Directors, CMO's, CFO and CEO's in order to get a true sense of sponsorship ROI.

Brand Finance defines corporate sponsorship as: a form of advertising in which companies pay to be associated with certain events or rights holder assets to promote their brand.

Pre-eminent public relations academics Tench and Yeomans¹ go a step further. They defined sponsorship as "the totality of market-orientated decision processes about the provision of money, services, know-how or in-kind support of corporations or organizations to individuals, groups or institutions from the area of sports, culture, charity, ecology, education or broadcasting, in order to achieve specified corporate communication goals via the commercial and psychological potential associated with this activity."

Despite its definition, all agree that Sponsorship is one of many tools in the marketer's toolkit, to be employed as an integrated strategy to influence target customers, raise brand awareness, enhance corporate image and/or consumer attitudes, which may lead to future purchase intent.

Sports is the area where sponsorship has made the greatest strides. Studies typically show sponsorship in sports eclipses all else, commanding a share of between 50% and 70% of all sponsorship. So why are brands continuing to invest so much money into sports over other categories? At the heart of this is the unrivaled power of sports to create positive associations between the team, league or sports person and the corporate brand. Sporting brands exhibit the ability to create powerful emotional connections with their fans which many corporate brands are unable to match.

A study done by Barclays² on fans of various English Premier League clubs showed that the average heart rate of a fan when their team conceded or scored could increase 215.5% above its resting level. This means that watching a football game can feel as intense as playing on the field in the thick of the action. This captivating, emotionally driven sport has always been an indispensable vehicle for brands to reach fans through something that is very close to the heart. As a result, many corporate brands look to sponsorship to develop this connection through association.

Sponsorship also works at a cognitive belief level too, being able to influence the image and perceptions of a brand, which is amplified within the arena of sports. These, as well as general behaviour tendencies of the consumer, collectively influence attitudes towards a brand and ultimately affect future purchase intent.

However, it is important to note that the goals of the company need to be carefully considered when making sponsorship decisions. A company must decide if they are looking to raise brand awareness, enhance corporate image or change customer attitudes.

There must also be a good fit between the sponsor and the property in order to properly reach the target market and capture their emotional attachments. If the image associated with a particular sport, event or sports personality is not aligned with a sponsor's brand and target audience, then the sponsorship return would be negligible or potentially even damaging.

With such high levels of investment in sports sponsorship, and the inherent opportunities and risks involved, often a lot of money can be left on the table. Evaluation of sponsorship arrangements, both current and future can play an important role in determining the return on investment, performance of sponsorship against key KPI's and to convince partners to be invested in the long-term.

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*Market research provided by the Financial Services Group via its annual brand equity and sponsorship effectiveness research tracker study

Sponsorship Valuation

There are many approaches to valuing sponsorship, the most common being Advertising Value Equivalency (AVE). AVE is an attempt to measure the size of the sponsorship coverage gained, its placement and a calculation of the equivalent amount of space, if paid for as traditional advertising. A multiplier can frequently be applied to the AVE valuation to allow for the credibility factor of news coverage over advertising.

The Advertising Value Equivalency approach has its place within the valuation mix but is fundamentally flawed as:

A) The amount of space a story covers is irrelevant if the article is critical of the client or if the clients' competitors are favoured or even just included as well.

B) The use of multipliers is simply arbitrary.

C) Most importantly, it merely addresses exposure rather than the effectiveness of sponsorship across its intended audience group. i.e. it fails to highlight the consequence of sponsorship exposure such as changes in stakeholder perceptions, sentiment, shifts in stakeholder behaviours towards the brand and ultimately the impact on the financial performance of the underlying business.

Aside from AVE, other valuation approaches include some form of market research to identify the impact of sponsorship on key sponsor brand and marketing funnel metrics and KPI's such as brand image and brand awareness in order to understand how the association with the rights holder has shifted the dial on these various metrics.

However, for the reasons outlined above, these approaches often fail to meet the standard required at CFO, CEO and certainly at Board level. They fail to express the effectiveness of a sponsorship in a language familiar with key decision makers such as the CEO and CFO. In terms of expressing the return on a marketing investment, a financial audience will require an evaluation of sponsorship investment based on financial payback, or ROI. i.e. how has the investment affected both top and bottom-line performance of the organisation?

These crucial questions should form part of your sponsorship effectiveness checklist, when evaluating how successful your campaign or relationship has been:

- What impact is the sponsorship having on long-term brand building metrics of the organisation such as awareness and brand equity?
- What impact is the sponsorship having on your short-term business performance?

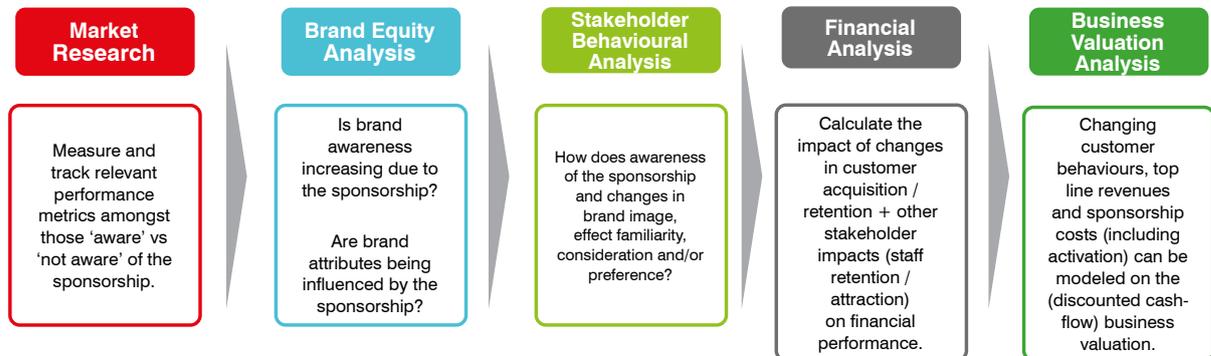
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- What is the ROI dollar value from the sponsorship investment annually and over the term of the deal? Is it money well spent?
- How does the sponsorship ROI compare to other similar sports sponsorships?
- Are we paying too much?
- Should the sponsorship be renewed, and if so at what fee?
- Is the sponsorship a good fit for our commercial objectives?

Value Based Approach to Sponsorship Valuation

A valuation-based approach to sponsorship evaluation provides a practical, logical and commercially driven basis for assessment. Through an approach that establishes linkages between changes in brand equity, stakeholder behaviour and ultimately business and brand value, a solid platform of insight to inform future sponsorship decision making.

Understanding a sponsorship's contribution to business performance (value) through a discounted cash-flow valuation model provides true firepower at the negotiation table with existing and potential sponsors.



Case Study: Financial Services Group > Premier Football League*

A prominent International Financial Services Group entered into a long-term naming rights sponsorship agreement with the highest division of a national football league system.

As the completion date of the existing sponsorship deal term approached, the financial services brand required an evaluation and valuation of the sponsorship deal to inform decision making relating to the possible renewal of the deal beyond the existing term.

The financial services brand was looking to understand the value added to the business by the sponsor relationship since its launch, and the value to be gained or lost by renewing the sponsorship.



Sponsor:
International
Financial
Services Group



Rights Holder:
A Premier
Football
League

**The numbers and results in the following case study have been anonymised for client security purposes.*

**Market research provided by the Financial Services Group via its annual brand equity and sponsorship effectiveness research tracker study*

Sponsorship Return on Investment – Cash Flow Modelling

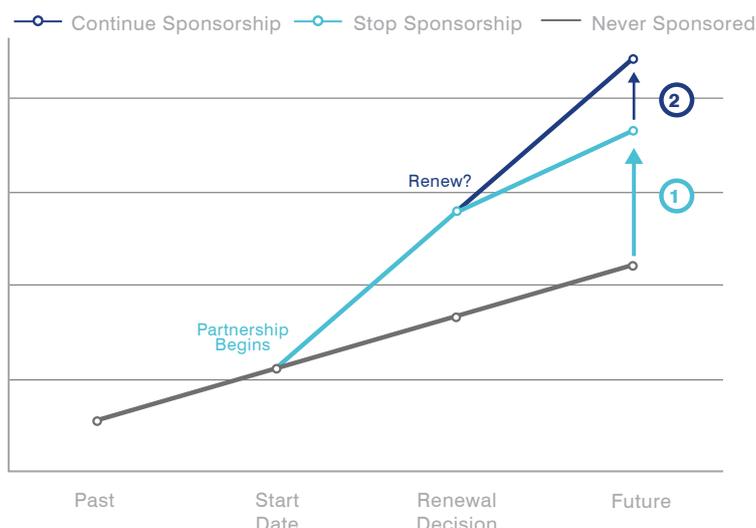


Illustration of sponsorship returns:

1. Return on Historic Sponsorship

Past Return on Investment is calculated as the advantage in business position compared to where it would be without the partnership.

2. Future Return on Sponsorship Renewal

Future return is determined by modelling the growth of the business with and without the effects of the partnership.

A five-step approach was taken to understand the impact of the Football League sponsorship on the Financial Services Group business value up to 2019, the potential into the future, and the cash delivered since its inception.

A. Branded Business Valuation

Adaptable financial model of the business to allow for scenario modelling.

B. Effect of partnership on customer consideration and perceptions

Understand brand perception differences between those aware and not aware of the sponsorship.

C. Linking brand perceptions to business value drivers

How the customer numbers, acquisition, retention and churn are affected by the sponsorship.

D. Sponsorship Valuation (Business Value Impact)

Apply adjusted customer numbers to the business model to find the financial impact.

E. Return on Investment Analysis

Comparing total expenditure since the start of the sponsorship to the cash flow advantage delivered.

Business Valuations, USDbn

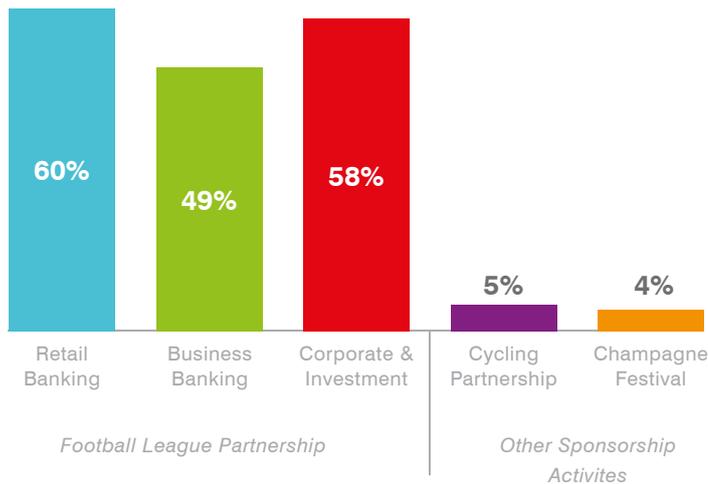


A. Establish Current Enterprise Value

- Firstly, the value of the Financial Services Group enterprise is determined in order to establish a base line from which the sponsorship effectiveness is determined.
- All business segments that may be influenced by the partnership are valued using the discounted cash flow methodology and corroborated by using market multiples.

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Partnership Awareness

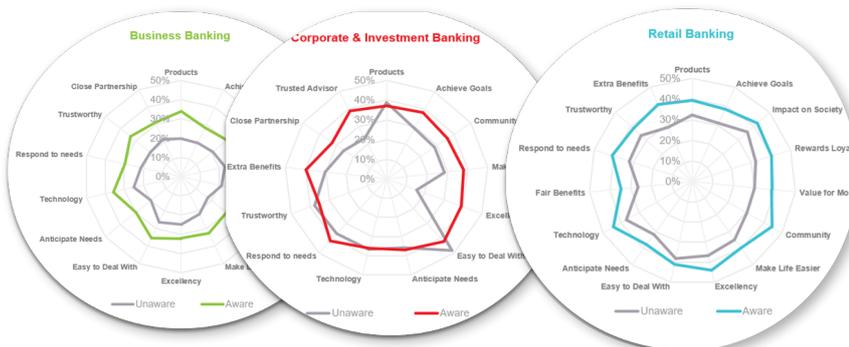


B. Effect of partnership on customer consideration and perceptions

Stakeholder research is analysed to understand the sponsorships impact across customer segments, including levels of awareness, Financial Services Group brand perceptions and consideration for the Financial Services Group brand.

- Strong sponsorship awareness amongst Financial Services Group consumers and business audiences.
- There is little benefit to creating a strong positive effect on perceptions if only a few consumers are affected or if there is a widespread awareness but no positive effect on perceptions.
- A good return depends on the sponsorship activity enhancing positive image attributes among a large proportion of the consumer base.

Image Attributes



- The percentage of respondents strongly agreeing that Financial Services Group had a range of positive image attributes was generally higher among those aware of the Football League sponsorship.
- Stronger brand perceptions amongst those aware of the sponsorship.

Brand Consideration



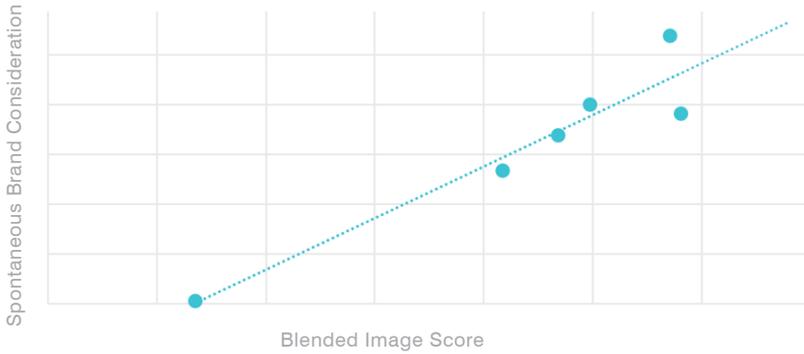
- The increased consideration seen among those aware of the sponsorship is not limited to a point in time – the effect can be seen consistently for the retail bank for the past two years.
- Consideration difference peaks July 2018 – 60% vs 33% – an 82% uplift vs unaware.
- Those aware of the sponsorship were more likely to consider in 83 of the 96 weeks researched.

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C. Linking brand perceptions to business value drivers

Statistical analysis is undertaken to identify relationships between Financial Services Group brand perceptions and brand consideration, brand consideration and brand usage (acquisition). This analysis provides a basis to understand the customer numbers and therefore the revenue impact on the Financial Services Group business model over a period.

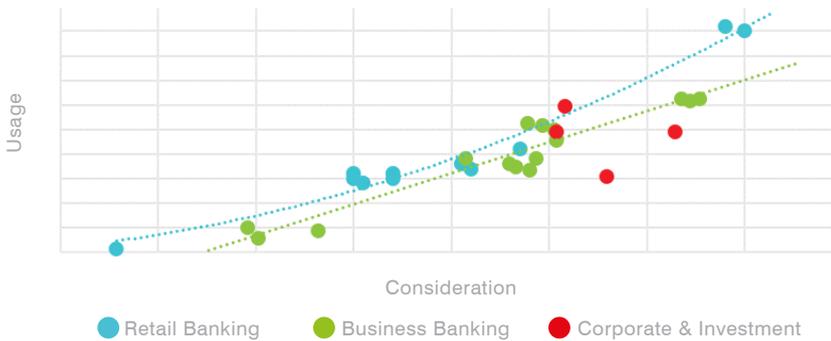
Brand Image Perceptions vs Spontaneous Consideration



Improving stakeholder image perceptions influences customer behaviours, especially brand consideration, which is a major factor in customer acquisition.

- The retail banking market research shows that stronger perceptions correlate with greater spontaneous brand consideration.

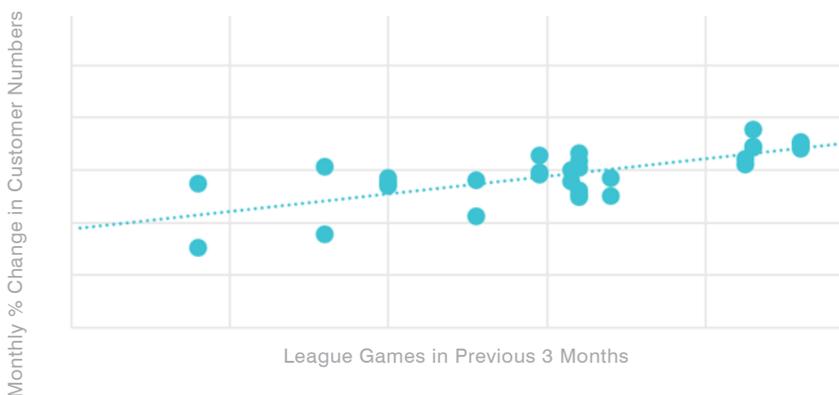
Consideration vs Usage



Increased consideration delivers incremental benefits to the business, and for a bank this is primarily through increased customer acquisition and reduced churn.

- A 1% increase in consideration in Business Banking delivers 0.6% increase to usage, and in retail banking a 1% consideration boost delivers 0.5% - 1.0% usage increase (depending on the current size of the business).

Number of Games vs Customer Growth



Do retail customer numbers increase faster when the league is underway, and play is in session?

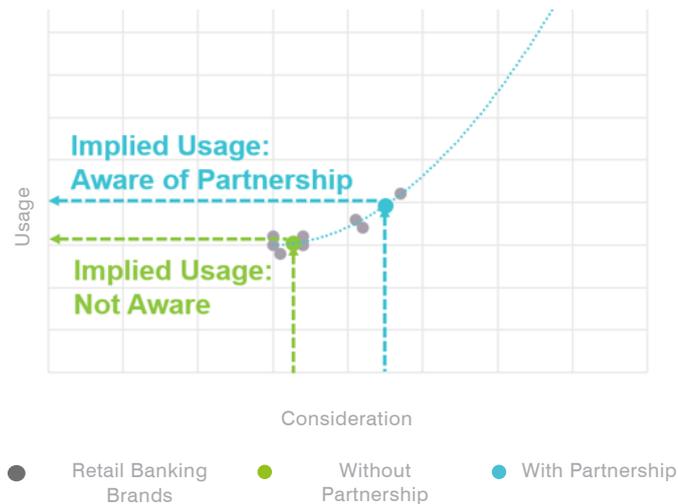
- Analysis of number of games played showed a significant relationship to the percentage change in customer numbers.
- Since 2017, more League games played correlates to stronger customer retention and acquisition.

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D. Sponsorship Valuation (Business Value Impact)

The value delivered by the sponsorship across each Financial Services Group business segment arises from greater awareness and consideration of the Financial Services Group brand, which feeds through to increased usage minus annual sponsorship costs which would include activation expenditure. Both revenue and cost impacts are modeled in an annual forecast DCF valuation model.

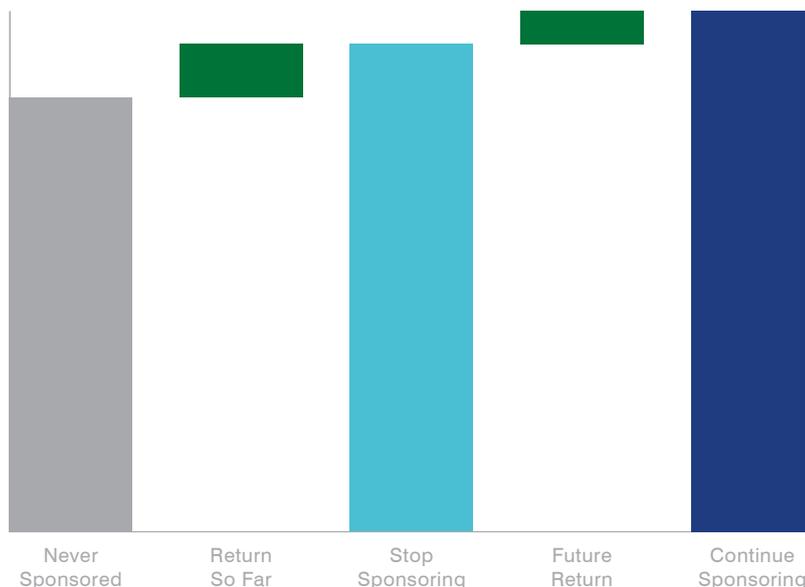
Consideration vs Usage Incumbent 5 Retail Banks



The value delivered by the sponsorship in Retail Banking arises from greater awareness and consideration of the brand, which feeds through to increased usage.

- Total brand consideration is x% higher amongst those aware of the sponsorship.
- Therefore, the brand is expected to have y% greater usage as a result of the sponsorship.

Business Value Contribution of Sponsorship USDbn



The investment delivered positive results – Significant value has been delivered, with potential for further gain if renewed.

- A 1% increase in consideration in Business Banking delivers 0.6% increase to usage, and in retail banking a 1% consideration boost delivers 0.5% - 1.0% usage increase (depending on the current size of the business).
- The sponsorship began to have an annual positive cash flow three years after it started and a net break even after five years, with each subsequent year boosting the return further.
- Over the 12 years sponsorship term to 2019 a x and y multiple of sponsorship investment respectively.

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The findings and recommendations provided by Brand Finance were circulated among the marketing team, as well as at board level in order to make an informed decision on renewal.

The results were disseminated among the wider marketing team. This was used internally as part of discussions on whether the contract should be renewed and at what fee.

The findings were used in the ongoing negotiations between the Bank and the rights holder, in order to determine whether the contract should be renewed and at what fee.

Brand Finance Sponsorship Valuation Services

When embarking on a new sponsorship, or considering the renewal of an existing sponsorship, whether you are a rights holder or a corporate brand, one must ask themselves ‘Do I have a framework in place to quantify the ROI dollar value to maximise effectiveness, inform decision making and increase negotiation leverage.’

With such high levels of investment in sports sponsorship, a lot of money can be left on the table. As such, there is a requirement to improve the sophistication of sponsorship valuation, to provide a basis of valuation in the language of the CFO, CEO and Board who are often the key decision makers.

To understand more about Brand Finance sponsorship valuation services or to purchase a copy of the 2019 Football Annual which includes analysis and performance information on world footballs sponsorship landscape please visit the [Brand Finance](#) website.



Buy now on Amazon



**Market research provided by the Financial Services Group via its annual brand equity and sponsorship effectiveness research tracker study*

Consulting and Evaluation Services.

1. Valuation: What are my intangible assets worth?

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

- + Branded Business Valuation
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Contribution

2. Analytics: How can I improve marketing effectiveness?

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allows an understanding of how brands create bottom-line impact.

- Market Research Analytics +
- Return on Marketing Investment +
- Brand Audits +
- Brand Scorecard Tracking +

4. Transactions: Is it a good deal? Can I leverage my intangible assets?

Transaction services help buyers, sellers, and owners of branded businesses get a better deal by leveraging the value of their intangibles.

- + M&A Due Diligence
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

3. Strategy: How can I increase the value of my branded business?

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.

- Brand Governance +
- Brand Architecture & Portfolio Management +
- Brand Transition +
- Brand Positioning & Extension +



MARKETING

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand-based decisions and strategies.



FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.



TAX

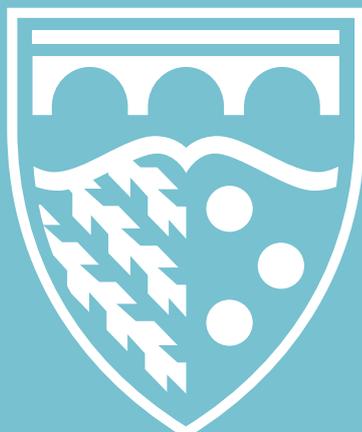
We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing, and brand ownership arrangements.



LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

About Brand Finance.



Brand Finance is the world's leading independent brand valuation consultancy.

Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For more than 20 years, we have helped companies and organisations of all types to connect their brands to the bottom line.

We pride ourselves on four key strengths:

- + **Independence**
- + **Technical Credibility**
- + **Transparency**
- + **Expertise**

We put thousands of the world's biggest brands to the test every year, evaluating which are the strongest and most valuable.

Brand Finance helped craft the internationally recognised standard on Brand Valuation – ISO 10668, and the recently approved standard on Brand Evaluation – ISO 20671.

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